



STATE OF DELAWARE

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MEMORANDUM

November 30, 2017

TO: The Chair and Members of the Commission

FROM: Joshua Bowman, Public Utility Analyst

SUBJECT: In the Matter of the Application of Artesian Water Company, Inc. for the Approval of the Semi-Annual Adjustment to the Distribution System Improvement Charge (DSIC)
Pursuant to 26 Del. C. § 314 (b) (5) (Filed November 24, 2015) – PSC Docket No. 15-1589

In the Matter of the Application of Artesian Water Company, Inc. for the Approval of the Semi-Annual Adjustment to the Distribution System Improvement Charge (DSIC)
Pursuant to 26 Del. C. § 314 (b) (5) (Filed May 31, 2016) – PSC Docket No. 16-0676

On November 24, 2015, Artesian Water Company, Inc. ("Artesian" or the "Company") filed an application to reset their Distribution System Improvement Charge ("DSIC Rate") to 1.57% with an effective date of January 1, 2016. This DSIC Rate was based on net plant additions of \$3,045,852 placed into service between May 1, 2015 and October 31, 2015, along with an associated semi-annual depreciation expense of \$30,023.

On December 15, 2015, by way of PSC Order No. 8832, the Commission opened Docket No. 15-1589 that approved the request by the Company to reset the DSIC Rate, subject to annual review, audit and reconciliation to be performed by Staff based on the 12-month period ending December 31, 2016.

On May 31, 2016, Artesian filed an application to reset its DSIC Rate to 2.30%, with an effective date of July 1, 2016. This increase was based on net additional plant of \$3,319,248 placed into service between

November 1, 2015, and April 30, 2016, along with an associated semi-annual depreciation expense of \$37,580.

On June 28, 2016, by way of PSC Order No. 8910, the Commission opened Docket No. 16-0676 that approved the request by the Company to reset the DSIC Rate, subject to annual review, audit and reconciliation to be performed by Staff based on the 12-month period ending December 31, 2016.

On June 19, 2017, the Commission Staff ("Staff") received the requested information for Docket Nos. 15-1589 and 16-0676 and conducted the audit and review of the DSIC Rates. The audit consisted of the procedures utilized for each of the water companies undergoing annual DSIC Rate audits. The audit concentrated on the three major components of the DSIC Rate; namely, Rate Base, Rate of Return, and Depreciation.

Findings for PSC Docket No. 15-1589: Effective Period January 1, 2016 – June 30, 2016

Associated with the Rate of Return is the revenue that the Company collected within the DSIC period. Staff reviewed a sampling of customer bills from the effective time period to determine if the billing accurately reflected the DSIC Rate component. No discrepancies were found.

During the effective time period for this Docket, the Company collected \$498,578 in DSIC revenues. This resulted in an under-collection of \$12,356 of the semi-annual revenue requirement of \$510,935 for this period.

Staff then reviewed the Rate Base Components of the DSIC Rate calculation. The plant additions were reviewed for conformity to the requirements of the legislation. Plant additions were traced by project and by account to the work orders and then to the general ledger. The Capital Expenditures Authorizations and Retirement Work Orders were reviewed to ascertain that appropriate expenditures were included in the Rate Base components of the DSIC Rate. Staff believes that the plant portions of the DSIC Rate calculation to be accurate.

Finally, Staff tested the Semi-Annual Depreciation Expense component of the DSIC Rate. The total depreciation as calculated by the Company agreed with the amount posted to the General Ledger, and the rates were the ones approved by the Commission. Therefore, Staff recommends that the DSIC Rate of 1.57% in effect from January 1, 2016 through June 30, 2016, be approved as final.

Findings for PSC Docket No. 16-0676: Effective Period July 1, 2016 – December 31, 2016

Similarly to Docket No. 15-1589, Staff reviewed a sampling of customer bills from the effective time period to determine if the billing accurately reflected the DSIC Rate component. No discrepancies were found.

During the effective time period for this Docket, the Company collected \$797,474 in DSIC revenues. This resulted in an under-collection of \$20,505 of the semi-annual DSIC revenue requirement for this period.

Staff then reviewed the Rate Base Components of the DSIC Rate calculation. The plant additions were reviewed for conformity to the requirements of the legislation. Plant additions were traced by project and by account to the work orders and then to the general ledger. The Capital Expenditures Authorizations and Retirement Work Orders were reviewed to ascertain that appropriate expenditures were included in the Rate Base components of the DSIC Rate. Staff believes that the plant portions of the DSIC Rate calculation to be accurate.

Finally, Staff tested the Semi-Annual Depreciation Expense component of the DSIC Rate. The total depreciation as calculated by the Company agreed with the amount posted to the General Ledger, and the rates were the ones approved by the Commission. Therefore, Staff recommends that the DSIC Rate of 2.30% in effect from July 1, 2016 through December 31, 2016, be approved as final.

The total under-collection of DSIC Revenue for the two DSIC Rate periods defined in PSC Docket Nos. 15-1576 and 16-0656 after completion of the audit and review was \$32,861. This under-collection will be reconciled in the Company's next DSIC Rate application.

Staff has shared its findings with the Company and both parties are in agreement. Therefore Staff recommends that PSC Docket Nos. 15-1589 and 16-0676 be closed.